



## SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

September 9, 2005

MEMORANDUM FOR COMMANDING GENERAL, JOINT CONTRACTING COMMAND  
– IRAQ/AFGHANISTAN  
COMMANDER, GULF REGION DIVISION, U.S. ARMY CORPS  
OF ENGINEERS  
DIRECTOR, IRAQ RECONSTRUCTION MANAGEMENT OFFICE  
DIRECTOR, PROJECT AND CONTRACTING OFFICE  
COMMANDER, DEFENSE CONTRACT MANAGEMENT  
AGENCY-IRAQ

**SUBJECT:** Controls Over Equipment Acquired by Security Contractors  
(Report No. SIGIR 05-013)

We are providing this audit memorandum for your information and use. We performed the audit in accordance with our statutory duties contained in Public Law 108-106, as amended, which mandates the independent and objective conduct of audits relating to the programs and operations funded with amounts appropriated or otherwise made available to the Iraq Relief and Reconstruction Fund (IRRF). Our statutory duties require that we provide for the leadership and coordination of, and recommendations on, policies designed to promote economy and effectiveness in the administration of IRRF programs and operations and to prevent and detect waste, fraud, and abuse.

This memorandum discusses the management controls and accountability processes for government property purchased with IRRF monies, and it identifies our concerns about those controls and processes.

**Objectives, Scope, and Methodology.** The objective of this audit was to determine whether controls over equipment acquired by security contractors were established, implemented, and are effective. Specifically, we proposed to examine selected contracts to determine whether requirements for the acquisition of equipment were valid, adequately supported, properly approved, and the equipment was accounted for and safeguarded. During the course of our audit, we narrowed the scope of the audit to focus on property accountability. In addition, we found that we could not fully address the property accountability objectives, because the organizations responsible for property administration could not provide adequate documented inventories of government equipment. We conducted this audit from April through September 2005, in accordance with generally accepted government auditing standards.

We reviewed nine contracts obtained from the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A), Baghdad, Iraq, to identify what controls, if any, those contracts provided for the equipment purchased under those contracts (see Attachment). The nine contracts we reviewed comprised construction and security service contracts valued at more than \$661 million.

We determined that the Project and Contracting Office (PCO) had established contract procedures regarding government property in July 2004. Additionally, we determined that the

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JCC-I/A government property administrator reinforced the need for the application of these procedures in letters to contracting chiefs in September 2004.

**Audit Concerns.** Our concerns were: (1) that some of the contracts we reviewed failed to include required control provisions regarding government property; (2) that the PCO property administration standard operating procedures may not have been consistently followed; and (3) that government property administrators assigned to monitor contract compliance did not always adequately perform property administration procedures.

**Required Controls Over Government Property.** Of the nine contracts we reviewed, seven did not include any or all of the required Federal Acquisition Regulation (FAR) and Defense Federal Acquisition Regulation Supplement (DFARS) clauses.

**Federal Acquisition Regulation Requirements.** The FAR Part 45, entitled Government Property, prescribes policies and procedures for providing government property to contractors, for how contractors' should use and manage government property, and for the reporting, redistributing, and disposing of contractor inventory. The FAR 45.106, Government Property Clauses, states that a contracting officer shall insert FAR clause 52.245-2, Government Property (Fixed-Price Contracts), in solicitations and contracts involving a fixed-price contract and shall insert FAR clause 52.245-5, Government Property (Cost-Reimbursement, Time-and-Material, or Labor-Hour Contracts), in solicitations and contracts involving cost-reimbursement, time-and-material, or labor-hour contracts. Of the nine contracts we reviewed, three failed to include either FAR clause 52.245-2 or FAR clause 52.245-5.<sup>1</sup>

**Defense Federal Acquisition Regulation Supplement.** The DFARS clause 245.252-7001 states that a contractor shall provide an annual report accounting for all Department of Defense property for which the contractor is accountable under the contract, in duplicate, to the cognizant government property administrator, no later than October 31. The clause also provides that the contractor is responsible for reporting all government property acquired under the contract, including equipment at subcontractor and alternate locations. Of the nine contracts, seven should have included DFARS clause 245.252-7001.<sup>2</sup>

**Project and Contracting Office Standard Operating Procedure.** In July 2004, the PCO established a property administration standard operating procedure, entitled Management of Contractor-Acquired Government Property. This standard operating procedure provided guidance to the PCO (and its contractors and subcontractors) regarding the management of contractor-acquired government property. The procedure applied to all contractors that acquired and managed real and personal property on behalf of the PCO, and it provided guidance on their roles and responsibilities, as specified in FAR Subpart 45.5, Management of Government Property in the Possession of Contractors. Neither the contracting officers nor the Defense Contract Management Agency (DCMA) government property administrator we interviewed during the audit were aware of the existence of PCO's property administration standard operating procedure.

**Government Property Administrators.** We determined that the government property administrators assigned to the nine contracts we reviewed did not always adequately perform property administration procedures. The property administration responsibilities were shared by the JCC-I/A, the DCMA, and the Gulf Region Division (GRD), U.S. Army Corps of Engineers.

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<sup>1</sup> Contracts W911S0-04-A-0002, Task Order 1; W911S0-04-A-0003, Task Order 3; and W914NS-04-D-0022, Task Order 2.

<sup>2</sup> Contracts DABV01-04-D-0014, Task Order 3; W911S0-04-A-0002, Task Order 1; W911S0-04-A-0003, Task Order 3; W911S0-04-C-0003; W914NS-04-D-0006, Task Order 12; W914NS-04-D-0008, Task Order 2; and W914NS-04-D-0022, Task Order 2.

The property administration responsibility was not clearly delegated among the three organizations and, in some instances, the property administrators were not aware of the contracts for which they were responsible.

***Joint Contracting Command-Iraq/Afghanistan Government Property Administrator.***

The JCC-I/A government property administrator was responsible for all contractor-acquired property on government contracts entered into on behalf of the PCO. Of the nine contracts we reviewed, four were assigned to the JCC-I/A government property administrator, and he performed government property assistance visits on two of the four contracts (see Attachment). For the other two contracts, the contracting officers did not clearly communicate property administration requirements to the JCC-I/A government property administrator, and he thus did not perform property administration procedures on the contracts.

***Government Property Assistance Team Visits.*** The JCC-I/A government property administrator performed government property assistance team visits on two contracts in April and July 2005.<sup>3</sup> The JCC-I/A government property administrator performed the visits with the JCC-I/A - Property Administration Technical Advisor. The JCC-I/A - Property Administration Technical Advisor was also a GRD Assistant Project Manager for Government Property and was detailed to the JCC-I/A to provide property administration technical advice to the JCC-I/A government property administrator.

The purpose of the government property assistance team visits was to review implementation of contractor procedures governing the care, custody, and control of government property. During the visits, the JCC-I/A government property administrator and JCC-I/A - Property Administration Technical Advisor briefed the contractors on the 15 functional areas of government property management responsibility. Full property audits were supposed to be scheduled for the contractors within 90 to 120 days of the government property assistance team visit.

***Property Administration.*** The JCC-I/A government property administrator did not perform property administration for two contracts.<sup>4</sup> One of the two contracts provided that purchased equipment would become the property of the Coalition Provisional Authority upon contract completion.<sup>5</sup> The contract was completed in January 2004, but the government property, valued at \$530,450, was not recovered.

***Defense Contract Management Agency Government Property Administrator.*** The DCMA government property administrator had the authority to approve a property management process, on behalf of the contracting officer, concerning the oversight of a contractor's control of government property. Of the nine contracts we reviewed, two were assigned to the DCMA government property administrator (see Attachment). She performed a property system audit for one contract that included government property valued at about \$24.5 million.<sup>6</sup> She rated the property system conditionally satisfactory. No property administration procedures were performed on the other contract, which included government property valued at about \$9 million.<sup>7</sup> The DCMA government property administrator was planning a property review of this contract in August 2005.

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<sup>3</sup> Contracts W9126G-04-D-0001, Task Order 16; and W9126G-04-D-0002, Task Order 10.

<sup>4</sup> Contracts W911S0-04-A-0002, Task Order 1; and W911S0-04-A-0003, Task Order 9.

<sup>5</sup> Contract W911S0-04-A-0002, Task Order 1.

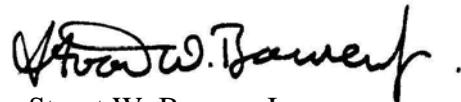
<sup>6</sup> Contract W911S0-04-C-0003.

<sup>7</sup> Contract DABV01-04-D-0014, Task Order 3.

**Gulf Region Division Government Property Administrator.** Of the nine contracts we reviewed, three were assigned to the GRD (see Attachment).<sup>8</sup> The GRD, however, did not assign a government property administrator and did not perform any government property accountability procedures on the three contracts, which comprised government property valued at about \$34.6 million. The former administrative contracting officers within the GRD we interviewed stated that they did not perform property administration procedures, because they had not been delegated the authority. The JCC-I/A contracting officers stated that they did not assign authority to the GRD administrative contracting officers, because there were no qualified personnel to whom they could have assigned the responsibility. The only evidence of property administration procedures was the government property assistance team visits performed by the JCC-I/A government property administrator and the JCC-I/A Property Administration Technical Advisor on two of the three contracts.

**Actions.** We plan to address overall IRRF property accountability issues in a series of future audits. We briefed senior leadership at the addressee commands. No specific recommendations were made; therefore, no written response to this report is required. We are providing this information so that the affected agencies may take necessary actions to improve their accountability over government-owned property.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. James A. Carrera at (703) 343-8817, or at [james.carrera@iraq.centcom.mil](mailto:james.carrera@iraq.centcom.mil), or Ms. Emily G. Richards at (703) 343-4141, or at [emily.richards@iraq.centcom.mil](mailto:emily.richards@iraq.centcom.mil).



Stuart W. Bowen, Jr.  
Inspector General

Attachment:  
As Stated

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<sup>8</sup> Contracts W914NS-04-D-0006, Task Order 12; W914NS0-04-D-0008, Task Order 2; and W914NS-04-D-0022, Task Order 2.

## **Attachment**

### **Contracts Reviewed**

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We reviewed nine contracts obtained from the JCC-I/A to identify the controls over the equipment purchased through those contracts. Those contracts are listed below in the order of the effective date of the contract.

<b>Contract Number &amp; Task Order (TO)</b>	<b>Contract Effective Date</b>	<b>General Scope of Work*</b>	<b>Organization Responsible for Property Administration</b>	<b>Contract Value</b>
W911S0-04-A-0002, TO 1	12/30/2003	Security for Governorate Teams and Regional Coordinators in 18 Iraqi Provinces	JCC-I/A	\$ 3,590,137
W914NS0-04-D-0008, TO 2	4/21/2004	Erbil Water Treatment Plant	GRD	125,367,680
W914NS-04-D-0022, TO 2	4/21/2004	Nasiriyah Water Construction Project	GRD	172,389,320
W911S0-04-C-0003	5/25/2004	Reconstruction Security Support Services	DCMA	168,099,027
W9126G-04-D-0001, TO 16	6/7/2004	Security Costs Associated with Iraqi Oil Infrastructure Restoration in Southern Iraq	JCC-I/A	48,043,941
W9126G-04-D-0002, TO 10	6/17/2004	Security Costs Associated with Iraqi Oil Infrastructure Restoration in Northern Iraq	JCC-I/A	24,968,887
DABV01-04-D-0014, TO 3	6/17/2004	Transportation and Security Convoy	DCMA	46,415,442
W911S0-04-A-0003, TO 9	6/30/2004	Personal Security Detail for the Senior Advisor to the Minister of Interior	JCC-I/A	3,600,000
W914NS-04-D-0006, TO 12	10/20/2004	Construct 60 Primary Health Centers in Southern Iraq	GRD	69,021,269
<b>TOTAL</b>				<b>\$661,495,703</b>

\* Description of scope of work may not be all inclusive